

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**



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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2010 TAXES**

**For The Period
April 16, 2010 Through April 15, 2011**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2010 Taxes for the Fulton County Sheriff for the period April 16, 2010 through April 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,568,334 for the districts for 2010 taxes, retaining commissions of \$99,165 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,463,477 to the districts for 2010 taxes. Taxes of \$18,627 are due to the districts from the Sheriff and refunds of \$18,085 are due to the Sheriff from the taxing districts. The Sheriff has a fund deficit of \$3,821 in his official tax account.

Report Comments:

2010-01 The Fulton County Sheriff's Office Lacks An Adequate Segregation Of Duties
2010-02 The Fulton County Sheriff Should Not Have A Deficit In His Official Tax Account
2010-03 The Fulton County Sheriff Should Distribute Tax Collections Monthly
2010-04 The Fulton County Sheriff Should Deposit Tax Collections Timely

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the Fulton County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011. This tax settlement is the responsibility of the Fulton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fulton County Sheriff's taxes charged, credited, and paid for the period April 16, 2010 through April 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable David Gallagher, Fulton County Judge/Executive
Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The Fulton County Sheriff's Office Lacks An Adequate Segregation Of Duties
- 2010-02 The Fulton County Sheriff Should Not Have A Deficit In His Official Tax Account
- 2010-03 The Fulton County Sheriff Should Distribute Tax Collections Monthly
- 2010-04 The Fulton County Sheriff Should Deposit Tax Collections Timely

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

November 30, 2011

FULTON COUNTY
ROBERT HOPPER, SHERIFF
SHERIFF'S SETTLEMENT - 2010 TAXES

For The Period April 16, 2010 Through April 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 255,408	\$ 426,057	\$ 1,109,905	\$ 234,284
Tangible Personal Property	48,791	65,106	200,406	160,098
Inventory in Transit		26,150		
Fire Protection	445			
Increases Through Exonerations	540	841	2,236	1,989
Franchise Taxes	38,491	58,619	158,173	
Bank Franchises	18,579			
Penalties	2,527	3,959	10,610	1,629
Adjusted to Sheriff's Receipt	(5,337)	(846)	(3)	(2,098)
Gross Chargeable to Sheriff	<u>359,444</u>	<u>579,886</u>	<u>1,481,327</u>	<u>395,902</u>
<u>Credits</u>				
Exonerations	1,496	2,350	6,098	1,702
Discounts	4,793	7,752	19,505	5,373
Delinquents:				
Real Estate	8,452	13,553	41,022	7,752
Tangible Personal Property	75	112	335	221
Franchise Taxes	<u>17,760</u>	<u>27,419</u>	<u>82,455</u>	
Total Credits	<u>32,576</u>	<u>51,186</u>	<u>149,415</u>	<u>15,048</u>
Taxes Collected	326,868	528,700	1,331,912	380,854
Less: Commissions *	<u>13,892</u>	<u>22,470</u>	<u>46,617</u>	<u>16,186</u>
Taxes Due	312,976	506,230	1,285,295	364,668
Taxes Paid	315,683	511,192	1,272,510	364,092
Refunds (Current and Prior Year)	<u>631</u>	<u>997</u>	<u>2,946</u>	<u>576</u>
Due Districts or (Refunds Due Sheriff)		**	***	
as of Completion of Audit	<u>\$ (3,338)</u>	<u>\$ (5,959)</u>	<u>\$ 9,839</u>	<u>\$ 0</u>

*, **, and *** See Next Page.

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 ROBERT HOPPER, SHERIFF
 SHERIFF'S SETTLEMENT - 2010 TAXES
 For The Period April 16, 2010 Through April 15, 2011
 (Continued)

* Commissions:

4.25% on \$ 1,236,422

3.50% on \$ 1,331,912

** Special Taxing Districts:

Library District	\$ (1,878)
Health District	(909)
Extension District	(1,352)
Soil Conservation	66
Mental Health	(396)
Watershed District #1	(1,538)
Watershed District #2	48

Due Districts or
 (Refunds Due Sheriff)

\$ (5,959)

*** School Districts:

County School	\$ 18,513
Independent School	(8,674)

Due District or
 (Refund Due Sheriff)

\$ 9,839

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Fulton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Fulton County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental services for the year ended June 30, 2011. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 22, 2010 through April 15, 2011.

Note 4. Interest Income

The Fulton County Sheriff earned \$826 as interest income on 2010 taxes. The Sheriff did not distribute the appropriate amount to the school district as required by statute, or the sheriff's fee account. As of November 30, 2011, the Sheriff owed \$218 in interest to the county school district, \$195 to the independent school district and \$413 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Fulton County Sheriff collected \$11,972 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

FULTON COUNTY
ROBERT HOPPER, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 15, 2011

Assets

Cash in Bank (All Tax Accounts)		\$	105,792
Deposits in Transit			77,164
Receivables Due From:			
Fee Account	\$	73	
Taxpayers		318	
Other Taxing Districts-			
2009 Tax Year:			
State		265	
Soil Conservation		48	
Watershed #1		10	
2010 Tax Year:			
County		3,338	
Independent School		8,674	
Library		1,878	
Health		909	
Extension		1,352	
Mental Health		396	
Watershed #1		1,538	
			<u>18,799</u>
Total Assets			201,755

FULTON COUNTY
ROBERT HOPPER, SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS
April 15, 2011
(Continued)

Liabilities

Paid Obligations-

Outstanding Checks	\$	180,859
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Unpaid Obligations-

Other Taxing Districts-

County School	\$	18,513	
Soil Conservation		66	
Watershed #2		48	
Refunds Due Taxpayers		408	
Tax Commissions Due Sheriff's Fee Account		4,856	
Interest Due Sheriff's Fee Account		413	
Interest Due County School		218	
Interest Due Independent School		195	24,717

Total Liabilities		205,576
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Total Fund Deficit As Of April 15, 2011	\$	(3,821)
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Fulton County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, and have issued our report thereon dated November 30, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Fulton County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2010-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's Settlement - 2010 Taxes for the period April 16, 2010 through April 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2010-02, 2010-03, and 2010-04.

The Fulton County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fulton County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

November 30, 2011

COMMENTS AND RECOMMENDATIONS

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2010 Through April 15, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS:

2010-01 The Fulton County Sheriff's Office Lacks An Adequate Segregation Of Duties

The Fulton County Sheriff's Office lacks adequate segregation of duties over the accounting and reporting functions of the Sheriff's office. The Sheriff's bookkeeper is responsible for receiving cash, preparing deposits, preparing and signing checks, posting to ledgers, preparing monthly bank reconciliation. A lack of segregation of incompatible duties or strong oversight increases the risk that errors could occur and not be detected. This condition is a result of a limited budget, which restricts the number of employees the Sheriff can hire or delegate duties.

A proper segregation of duties over the accounting and reporting functions such as receiving cash, recording cash, preparing deposits, writing checks, maintaining ledgers, and reconciling bank records to the ledgers or implementing compensating controls, when necessary because of a limited number of staff, is essential for providing protection from error occurring and not being detected. Additionally, a proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

The Fulton County Sheriff should separate the duties involved in receiving cash, preparing deposits, writing checks, posting to ledgers, preparing monthly bank reconciliation, comparing financial reports to ledgers. If, due to a limited budget, this is not feasible, cross-checking procedures could be implemented and documented by the individual performing the procedure.

Sheriff Robert Hopper's Response: We are aware of the problem of not having enough people to carry out the duties the way the auditors office wants but we do check each others work periodically but didn't note it as it should have been for them.

STATE LAWS AND REGULATIONS:

2010-02 The Fulton County Sheriff Should Not Have A Deficit In His Official Tax Account

The Fulton County Sheriff has a deficit of \$3,821 in his official tax account. This deficit results from a ten percent penalty assessed for taxes due the Department of Revenue of \$3,708 and undeposited receipts of \$113. The ten percent penalty assessed by the Department of Revenue is due to the Sheriff not paying the proper amount due the state in a timely manner. The Sheriff was unaware that the proper amounts had not been paid due to inaccurate monthly reports from the software program and insufficient internal controls to determine if all tax collections were accounted for. We recommend that the Sheriff settle the 2010 tax collections by collecting and paying amounts as itemized on the attached determination of fund balance including covering resulting deficit with personal funds.

Sheriff Robert Hopper's Response: I was totally unaware of this problem that the computer system had. We are working with them to correct this problem.

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2010 Through April 15, 2011
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2010-03 The Fulton County Sheriff Should Distribute Tax Collections Monthly

KRS 134.191 states, "the sheriff shall pay all taxes collected due the districts by the 10th of the month following collection." The Fulton County Sheriff collected \$150,855 in franchise taxes for the year but did not distribute to the taxing districts on a monthly basis. We recommend that the Sheriff comply with KRS 134.191 by reporting and distributing franchise tax collections by the 10th day of the month following collection.

Sheriff Robert Hopper's Response: This is being taken care of now with me being back to work and having a new book keeper.

2010-04 The Fulton County Sheriff Should Deposit Tax Collections Timely

KRS 68.210 gives the State Local Finance Officer the authority to establish minimum accounting procedures, which includes depositing receipts intact on a daily basis into a federally insured financial institution. The Fulton County Sheriff did not deposit tax collections on a daily basis. We recommend that the Sheriff deposit public funds on a timely basis.

Sheriff Robert Hopper's Response: I wasn't here to see that this wasn't happening but am back and all deposits are being made daily.

